COLUMBIA POWER CORPORATION

PERFORMANCE PLAN
2001 - 2004

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COLUMBIA POWER CORPORATION

PERFORMANCE PLAN 2001 – 2004

1. Mission

Developing commercially viable and environmentally acceptable power projects in support of the employment, economic development and resource management objectives of the Province and the Columbia Basin Region.

2. Mandate

Developing power projects on behalf of the Province on a 50/50 partnership basis with the Columbia Basin Trust (CBT) using certain rights and a portion of the Columbia River Treaty Downstream Benefits, in order to generate sustainable future revenue for the partners and to allow CBT to create employment and economic opportunities throughout the Columbia Basin Region in addition to those generated from developing the power projects themselves.

Columbia Power Corporation (CPC) acts as the joint venture Manager in developing power projects with CBT.

3. Strategic Goals and Objectives

CPC's strategic goals are to, jointly with CBT:

- Maximize the value of the rights to install a powerplant adjacent to BC Hydro's Keenleyside storage dam on the Columbia River, which rights were acquired from BC Hydro in 1998 together with property needed for the project.

- Maximize the value of the Brilliant and Waneta Expansion rights and related transmission rights purchased from Cominco Ltd. in 1994 for $52 million.

- Maximize the value of the 125 MW Brilliant Dam and Powerplant, which was purchased from Cominco Ltd. in 1996 at a total cost of $136 million.

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- Invest a total of $500 million in equity over 10 years to construct three core hydroelectric power projects – the Arrow Lakes Generating Station (Keenleyside Powerplant), Brilliant Expansion and Waneta Expansion, and related facilities – subject to the conditions that would be established by a reasonable commercial lender.

- Undertake other generation, transmission and distribution projects in the Columbia Basin Region that CPC and CBT agree upon after negotiating in good faith.

- Develop new markets for power in the Columbia Basin Region and improve CPC/CBT market access.

- Complement the overall employment, economic development and resource management objectives of the Province and CBT for the Region, within the constraints of a commercial operation.

- Earn a commercial rate of return for power project equity investments.

- Ensure that CPC/CBT project debt is financed on a commercial basis and is self-supporting (non-tax supported).

4. Linkage to Government Priorities and Resources

- CPC is a wholly owned and controlled Crown corporation of the Province of British Columbia established under the *Company Act* in 1994. CPC's purpose is to act as the agent of the Province in power project joint ventures with the CBT and its subsidiaries, in support of the objectives of the Columbia Basin Accord.

- A key component of the development of CPC/CBT core projects is the Province's investment in 1994 of $52 million in the common shares of CPC, the proceeds of which were used to buy the Brilliant and Waneta Expansion rights from Cominco Ltd.

- CBT was created in 1995 under the *Columbia Basin Trust Act* to invest, spend and otherwise manage the allocation of the Columbia River Treaty Downstream Benefits for the ongoing economic, environmental and social benefits of the Region. CBT is governed by an eighteen member board of directors, of which two directors each are appointed by the regional districts of Central Kootenay, East Kootenay, Kootenay Boundary, Columbia Shuswap and Fraser Fort-George and by the Ktunaxa-Kinbasket Tribal Council, with the remaining six directors being appointed by the Province.

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- The activities of CPC and CBT are governed by the principles of the 1995 Columbia Basin Accord Memorandum of Understanding, as confirmed in the binding Financial Agreement of July, 1995 between the Province and CBT. The Columbia Basin Accord specified that a portion of the revenue from the Downstream Benefits of the Columbia River Treaty would be allocated to CBT for the creation of sustainable development opportunities in the Columbia Basin Region.

- Under the terms of the Financial Agreement, the Province agreed to provide $50 million annually for ten years, beginning on April 1, 1996 (and ending April 1, 2005), to be used for joint venture power projects. The Province also committed to provide to CBT a lump-sum payment of $45 million on April 1, 1996, as well as annual operating and development payments of $2 million for sixteen years beginning in 1995 and ending April 1, 2010.

- Returns from CPC's 50% share of the power projects are available to be distributed to the Province, CPC's shareholder, or retained. Returns from CBT's share of power projects will be used to provide benefits to the people of the region in accordance with the *Columbia Basin Trust Act*.

- CPC is an agent of the government. Under the terms of its Agency Agreement with the Province, CPC is required to obtain Treasury Board approval for its annual budgets and its material decisions, including the issuance of debt. CPC also has a Funds Management Agreement with the BC Investment Management Corporation, a provincial crown corporation, which establishes a segregated trust account to receive the annual appropriations from the Province. CPC participates in banking service programs available to the Province.

- CPC/CBT joint ventures help to meet a number of the Province's 11 Strategic Goals and Objectives, as set out in the 2001 – 2004 BC Government Strategic Plan, including:

  - Goal 3 – Helping to keep BC's financial house in order by: pursuing a balanced and cautious approach to spending, deficits and debt; managing provincial financial resources in ways that are accountable to taxpayers; pursuing strategies to minimize debt service costs and impacts on tax-supported debt; and, generating a commercial return on equity and paying dividends.

  - Goal 6 – Making BC's modern economy work for everyone by keeping power prices competitive and securing a reliable supply of clean power for the future, and helping regions and communities get greater economic advantages from their natural resources; and, engaging with private sector partners in strategic initiatives.

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- Goal 9 – Helping women to achieve greater economic and social equality by acting as a model employer to set standards for pay, benefits, working conditions and career opportunities.

- Goal 11 – Helping to safeguard BC's natural heritage, and our improving our quality of life by: contributing to BC's climate-change business plan to reduce greenhouse gas emissions; and, continuing to build toward a sustainable future; while protecting the habitats of wildlife and fisheries.

5. Key Strategic Issues and Initiatives

CPC's key strategic issues and initiatives designed to achieve its goals and objectives are to, jointly with CBT:

- Adopt innovative approaches to minimize the cost of CPC/CBT projects, including the use of design/build bidding processes whereby external engineering firms and construction contractors form strategic partnerships to submit competing proposals that meet technical specifications and electricity output levels set by CPC/CBT.

- Pursue other projects and opportunities that achieve synergies and scale economies with CPC/CBT's core projects.

- Pursue all power sales opportunities with domestic utilities and new industrials, in order to secure long term sales contract to enable non-recourse project finance and contribute to the creation of employment and economic opportunities throughout the Columbia Basin Region.

- Maintain federal and provincial export permits to enable CPC/CBT to export power until such time as suitable long term sales contracts can be put in place serving the domestic market.

- Consult extensively with regional stakeholders to build support for CPC/CBT power projects.

- Combine output from different power projects and from outside sources of supply to achieve product synergy and provide a better fit with the requirements of customers.

- Secure improved transmission access to markets on a reasonable cost basis.

- Participate in strategic partnership with other power companies, where appropriate.

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- Maintain membership in the regional power pools and the systems co-ordinating councils, and continue to take an active role in the transmission and wholesale/retail access policy debate in the province and the Pacific Northwest.

- Monitor developments in electricity markets related to the policy position of the Bush administration and the apparent failure of the wholesale power market in California.

- Participate in processes established to implement electricity market reforms where they are supportive of CPC/CBT's strategic goals and objectives.

- Participate in the development of environmental legislation and establish water use plans that minimize impacts on existing operations and prospective projects, while meeting the Province's environmental stewardship objectives.

- Develop mechanisms and programs to incorporate environmental protection and enhancement into CPC/CBT planning, power project designs and due diligence.

- Pursue "green power" designations where possible and secure ownership of such rights in any sales contract.

- Continue to work to develop solutions that address First Nations issues relating to CPC/CBT projects.

- Implement a debt management and project financing strategy that minimizes overall interest costs while enabling CPC/CBT to pursue their project development goals by: making use of equity resources to reduce interest obligations to acceptable levels during project development; securing lower cost debt finance once power projects have been completed and power sales contracts and backstop agreements have been put in place.

- Develop a sustaining capital fund to finance the equity portion of ongoing replacement capital and project life extension programs, while distributing an appropriate level of CPC equity returns to the Province as CPC's shareholder.

- Maintain CPC/CBT's exemptions from regulation in order to reduce transactions costs and minimize regulatory risk to bond holders.

- Sequence CPC/CBT projects to create long term, stable construction employment, and minimize strains on the economy of the Columbia Basin Region.

- Encourage skills training, local hiring, employment equity hiring and local procurement by successful bidders for CPC/CBT design-build contracts, within the constraints of a commercial corporation.

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6. Performance Measures

Key performance measures for CPC as the joint venture Manager include its ability to:

- Develop projects on time and on budget.
- Secure markets for the power generated by CPC/CBT power projects, and improved market access.
- Earn a target rate of return for power project equity investments.
- Maintain or improve current bond ratings for CPC/CBT power projects.
- Create 1,800 person years of direct employment within the Columbia Basin Region over ten years, with a target of 15 percent or greater employment equity hires.
- Earn the support of regional stakeholders for CPC/CBT power projects.
- Perform the joint venture Manager function in a cost-effective manner.

7. Major Capital Plan

CPC's Major Capital Plan is to, jointly with CBT:

- Construct and commission the 170 megawatt (MW) Arrow Lakes Generating Station (Keenleyside Powerplant) and the related 49 kilometre, 230 kilovolt (kV) transmission line, and interconnect with BC Hydro's Selkirk substation by April 1, 2002, within an overall budget of $270 million.
- Complete a three-year sustaining capital and life extension program for the Brilliant Dam and Powerplant by the fourth quarter of 2003 within an overall budget of $57 million.
- Upgrade the four turbines at the Brilliant Powerplant by the fourth quarter of 2002 within an overall budget of $21 million, for an additional 20 MW of capacity.
- Develop a 100 MW Brilliant Expansion Project by 2005, within an estimated overall budget of approximately $140 million.

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- Purchase the power generation business of West Kootenay Power (WKP), including four hydro-electric facilities on the Kootenay River, for $120 million; and, sell the power from the four plants to WKP on terms and at costs that will be at least as good for WKP's ratepayers for the next 25 years as if WKP continued to own the plants. With the purchase, CPC/CBT will own 5 of the 7 hydro-electric plants on the Kootenay River, allowing for greater scale economies and synergies with CPC/CBT's core projects.

- Following the purchase of WKP's power generation business, implement a 20-year, $245 million sustaining capital program for the four Kootenay River plants and related facilities. Just over one-half of this amount, or $124 million, would be expended between 2001 and the fourth quarter of 2006.

- Enter a strategic partnership arrangement with WKP whereby CPC/CBT will own, build and finance a new, $19 million Brilliant substation and interconnect the Arrow Lakes to Selkirk 230 kV transmission line at Brilliant as part of WKP's System Development Project (SDP). Under the SDP, WKP is rebuilding its electric transmission system in the Columbia-Kootenay Region. The new Brilliant substation, which is to be commissioned by April 2002, and interconnected Arrow Lakes to Selkirk transmission line will improve electric reliability in the region, service quality for WKP's consumers and market access for CPC/CBT power, in a cost-effective manner.

- Develop a Waneta Expansion Project of up to 380 MW by 2008, within an estimated overall budget in the order of $380 million (in 2001 dollars).

8. Specific Accomplishments and Targets for 2001/02:

- Complete the Arrow Lakes Generating Station and the related 49 kilometre, 230 kV transmission line on schedule and on budget.

- Achieve additional revenues through the sale of early power from the Arrow Lakes Generating Station.

- Maintain the development schedule for the Brilliant Life Extension and Upgrades projects within the approved budgets.

- Obtain environmental approvals for the Brilliant Expansion Project under the *Environment Assessment Act* project review process.

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- Secure markets for the Brilliant Upgrades power not sold to WKP under long term contract and the Brilliant Expansion power.

- Execute definitive agreements with WKP by June 30, 2001, to acquire WKP's generation business and obtain all requisite approvals.

- Execute detailed agreements with WKP by May 31, 2001, under which CPC/CBT will build, own and finance a new Brilliant substation and interconnect the Arrow Lakes Power Company 230 kV transmission line to Selkirk with WKP's new 230 kV (transmission) System Development Project.

- Continue to protect CPC/CBT's commercial and strategic interests with respect to the Waneta Expansion Project and CPC/CBT rights to Cominco's No. 71 Line.

- Update cost and design alternative assessments for the Waneta Expansion Project for three output cases of 250 MW, 315 MW and 380 MW, in order to provide better information on the appropriate scale of the project from an economic and environmental perspective.

- Continue to actively pursue electricity intensive manufacturing investment or high technology investment to the Columbia Basin Region.

- Maintain CPC/CBT's non-tax supported status and maintain or improve the bond rating on Brilliant Dam debt, currently rated at A mid by Dominion Bond Rating Service and A2 by Moody's.

- Raise approximately $30 million in the bond market for the Brilliant Sustaining Capital and Upgrades projects, and begin the necessary steps to obtain debt financing for the Arrow Lakes Generating Station.

- Maintain CPC staffing and overhead costs at the minimum levels required to ensure the efficient delivery of the joint venture Manager function, and ensure a smooth transition for the 70 WKP employees who will transfer to a subsidiary of CPC/CBT with the purchase of WKP's generation business.

April 30, 2001